

TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of
March 4, 1998, Investment
Committee, Open Session

ITEM NUMBER 3

ATTACHMENT(S) 1

ACTION: X

DATE OF MEETING: April 1, 1998

INFORMATION: _____

PRESENTERS: Chairperson

Proposed minutes of the Investment Committee Meeting held in open session March 4, 1998 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
STATE TEACHERS' RETIREMENT SYSTEM
MARCH 4, 1998
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Michael Mayer
Lillian Raffel
Emma Zink
Kathleen Connell, State Controller
Richard Whitmore, representing Superintendent
of Public Instruction, Delaine Eastin
Natalya Smith, representing State Treasurer
Matthew Fong
Robin Dezember, representing State Director
of Finance, Craig Brown

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director, Investment Admin. And External Relations
Ian Lanoff, Fiduciary Counsel
Ron Mealor, Staff Counsel
Doug Wills, Staff Counsel
Chris Waddell, Chief Counsel, Department of Finance
Fred Buenrostro, Deputy Controller
Christine Drevalas, Associate Treasury Program Officer
Jennifer DuCray-Morrill, DCEO, Gov. Affairs & Program Development
Michelle Cunningham, Director of Fixed Income
Mitch Pleis, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Steven Tong, Investment Officer
Richard Rose, Investment Officer
Janice Hester Amey, Corporate Affairs Advisor
Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Wally Knox, State Assemblyman
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:35 a.m.

I. **ANNOUNCEMENTS** (Item 2)

There were no announcements at this time.

II. **APPROVAL OF MINUTES OF FEBRUARY 4, 1998 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Mathiesen, seconded by Mr. Fenimore and carried to approve the minutes of the February 4, 1998 Investment Committee, Open Session as presented.

Ms. Connell arrived at the meeting at 9:43.

III. **LEGISLATION** (Item 15)

Ms. DuCray-Morrill reviewed three tobacco investment related bills, AB-1679 (Perata), AB-1744 (Knox), and SB-1433 (Hayden). Discussion ensued. No position was taken on these bills pending completion of a third party analysis commissioned by STRS.

Ms. Smith arrived at the meeting at 9:50 a.m. and assumed representation for the State Treasurer.

Assemblyman Knox discussed the third party analysis and requested that the results of the analysis be provided to the legislature, specifically to the authors of the tobacco related bills and to Assemblyman Honda, Chairman of the Assembly Committee on Public Employees Retirement and Social Security. Assemblyman Knox also commended STRS' efforts and commitment to providing information to him on this issue.

IV. **CREDIT ENHANCEMENT - SCHOOL BOND ENHANCEMENT** (Item 10)

Messrs. Rose and Mitchell discussed a preliminary concept for a school bond enhancement program which will require a legal opinion to consider Ed. Code and IRS issues and may require legislation. Discussion ensued.

Ms. Zink exited the room at 10:30 a.m.

MOTION duly made by Ms. Connell, seconded by Ms. Bodle and carried to delegate authority to the Chief Executive Officer to seek a legal opinion regarding school bond enhancement.

Chairperson Lynes recessed the meeting at 10:35 p.m. The meeting reconvened at 10:45 a.m.

Ms. Zink returned to the meeting at 10:45 a.m.

Ms. Connell did not return to the meeting following the recess, Mr. Buenrostro assumed representation for the State Controller.

V. **GLOBAL ASSET ALLOCATION - EXTENSION OF CONTRACTS** (Item 4)

Mr. Mitchell reviewed the recommendation by Staff and PCA to extend the contracts of the three Global Asset Allocators, Baring International, Brinson Partners and Fiduciary Trust for one year pending Investment Committee decisions regarding the structure of non-U.S. assets.

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to extend the contracts of Baring International, Brinson Partners and Fiduciary Trust for one year.

- VI. **REAL ESTATE - PERFORMANCE FEE FOR AMB** (Item 5)
Mr. Pleis reported that the incentive fee for AMB had been revised to reflect a decrease of \$28,000 due to an arithmetic error. Pension Consulting Alliance/E&Y Kenneth Leventhal was present to verify these calculations. Action on this item was deferred pending a closed session discussion.
- VII. **CORPORATE GOVERNANCE - UPDATE ON TOBACCO RELATED ISSUES** (Item 6)
Ms. Hester Amey reviewed the first quarterly report on tobacco related holdings. Ms. Hester Amey reported that the report would be provided to Assemblyman Knox and Assemblyman Honda immediately following the meeting.
- VIII. **FIXED INCOME - THE ROLE OF GLOBAL FIXED INCOME** (Item 7)
Ms. Cunningham and Mr. Rose presented an evaluation of the role of non-dollar fixed income in a diversified portfolio. Staff concluded that the broad research conducted to this point has demonstrated that on a strategic passive basis non-dollar fixed income would not add significant value. However, Staff and PCA recommend conducting further analysis addressing specific issues, such as, active/passive management, performance benchmarks, internal vs external management, and possible effects of the European Monetary Union.
- IX. **EQUITY - ROLE OF INTERNATIONAL EQUITY** (Item 8)
Mr. Emkin and Mr. Mitchell discussed the written informational item which is part two of a three part educational series on non-U.S. equity.
- X. **REAL ESTATE - ROLE OF CONSULTANT** (Item 9)
Mr. Pleis reviewed the written report clarifying the role and scope of services which will be provided by Pension Consulting Alliance/E&Y Kenneth Leventhal as STRS real estate consultant.
- XI. **ACTIVITY STATUS REPORT - CREDIT ENHANCEMENT PROGRAM** (Item 11)

The Committee accepted the written status report.

XII. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 12)

Mr. Pleis presented the written report.

XIII. **ACTIVITY STATUS REPORT - ALTERNATIVE INVESTMENTS** (Item 13)

Mr. Desrochers presented the written report and stated that a review of the alternative investment portfolio and a proposed investment plan is scheduled for the May meeting.

XIV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 14)

Mr. Mitchell presented the written report and presented updates. He reported that the fund assets as of the end of February were \$83.9 billion.

Ms. Zink commended Mr. Mitchell for his presentation and participation at the Pensions 2000 Conference

XV. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 16)

There were no statements from the public.

Mr. Lynes recessed the meeting at 12:00 p.m.

XVI. **MOVE TO CLOSED SESSION**

Chairperson Lynes moved the meeting directly to closed session at 12:50 p.m.

XVII. **RETURN TO OPEN SESSION**

Chairperson Lynes reconvened the open session at 2:44 p.m.

Ms. Connell was present at the reconvened open session. Ms. Drevalas represented the State Treasurer.

XVIII. **REAL ESTATE - PERFORMANCE FEE FOR AMB** (Item 5)

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to defer action on the authorization of payment of the performance fee for AMB to a future meeting. Ms. Connell and Mr. Whitmore abstained.

XIX. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to litigation and investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 2:47 p.m.

James D. Mosman, Chief Executive Officer and
Secretary to the Teachers' Retirement Board

Gary Lynes, Chairperson